CATALYST
PRIVATE WEALTH

COMMENTARY: The Value of Perspective

Aug. 2019

The 50th Anniversary of the Apollo 11 Moon landing was July 20th. In studying that tremendous achievement and that group of courageous people, I came across an old NASA phrase they used whenever a challenge arose: "Ignore, adjust, or abort". These were their options when there was a problem. As we face a cacophony of challenges from the global economy and capital markets that phrase has stuck with me.

Markets across the globe had a successful lift-off in the first half of 2019. It was the best overall start of a year for balanced portfolios since 1998. But now several alarms are sounding, and investors are wondering if they should ignore these risks, adjust accordingly, or abort from their current investment strategy.

The investment team at Catalyst does not attempt to predict when the next recession might occur or if the market will be up or down over the next 3, 6, or 9 months. As long-term fundamental investors, we don't make investment decisions based on the length of a streak, nor do we react to daily tweets or near-term one-off events. Reacting to daily market noise, as well as singular statistics taken in isolation, can be detrimental for long-term investors.

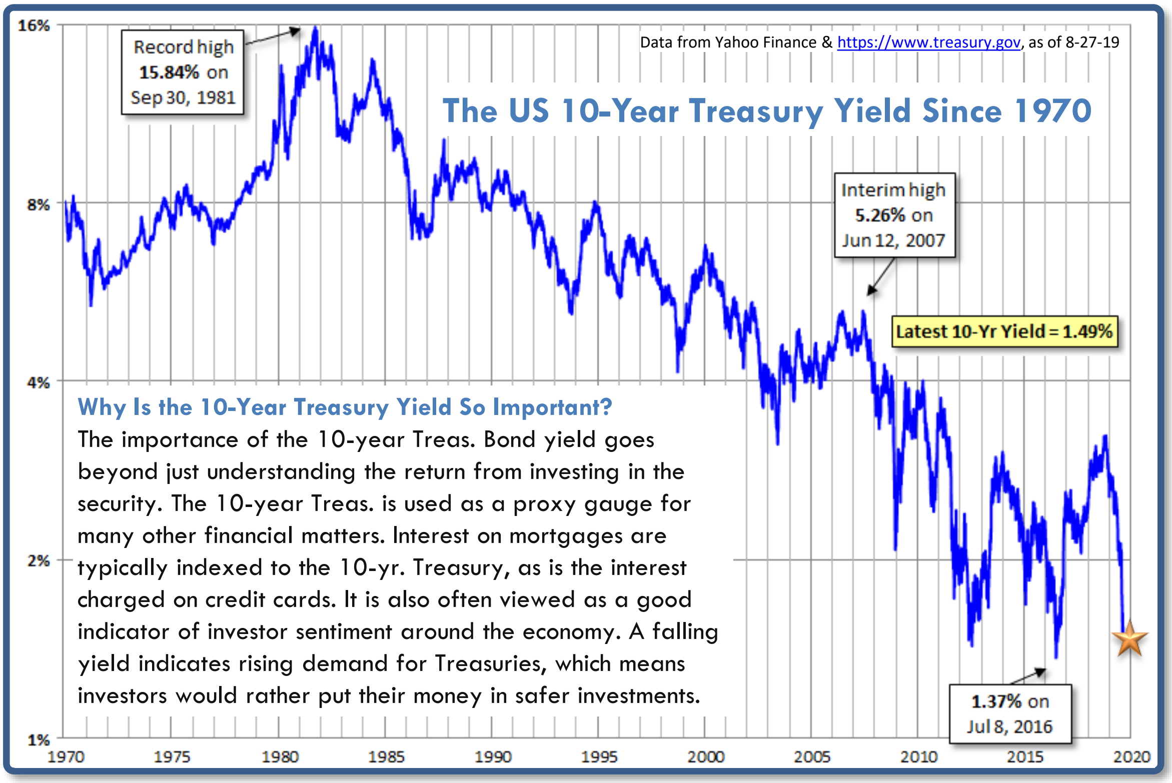
Our philosophy is to focus on the bigger picture and market fundamentals. We do know that over the last 40 years a globally balanced multi-asset class portfolio has rewarded investors. This approach maximizes long-term returns without taking significant short-term risks of loss of capital for clients

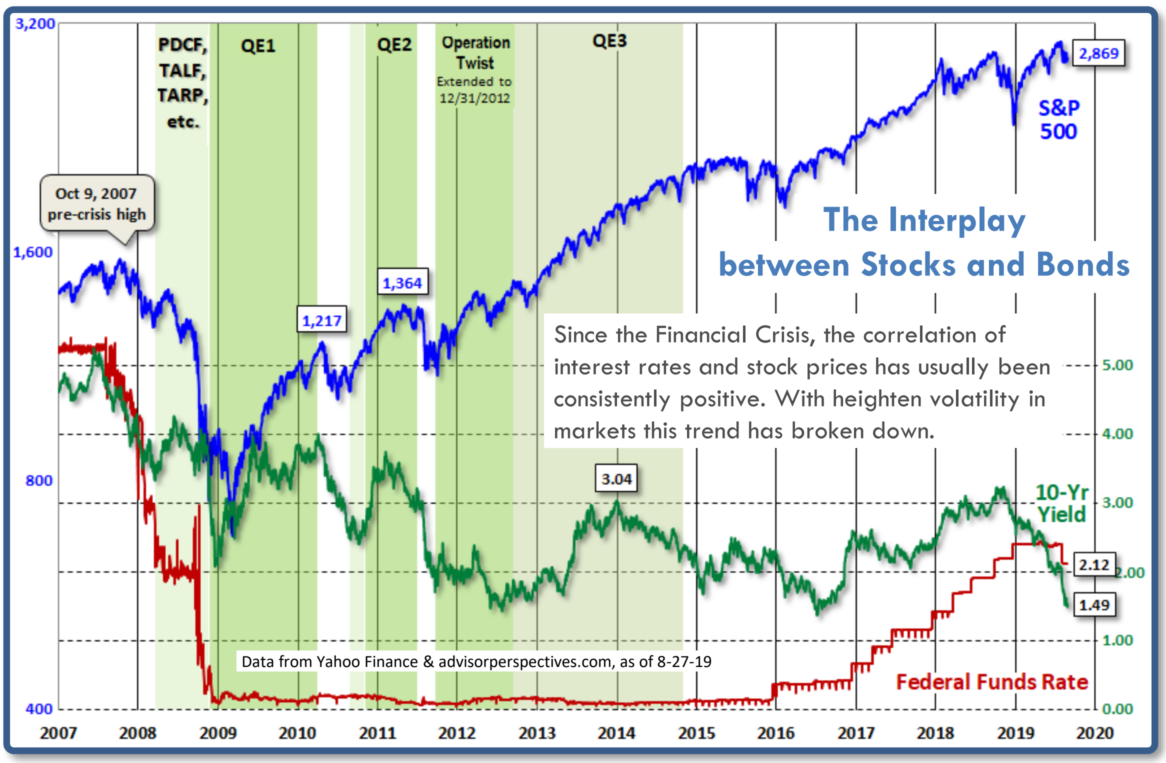
Every day we live and invest in a world full of uncertainty. We often find it difficult to know why market participants do what they do over the short term. The challenges we face are real and serious, with clearly uncertain outcomes. The business of allocating capital (investing) is the business of taking risk, managing the uncertainty, and taking advantage of the long-term opportunities that those risks and uncertainties create. We are confident that our process and approach is the right one, and we believe that it will enable us to make good investment decisions over time and reward our clients.

Macro Investment Themes / Anxieties

Brendan Connaughton
Founder, Managing Director

Interest rates around the global are low and seemingly falling further every day. In fact historical low rates have been set in many countries. The US 30 yr. Treasury Bond hit an all-time low on 8-28-19 with a rate of 1.94%. The causes of this drop in interest rates are multidimensional but a cornerstone to many of these causes is concern around global economic growth. Below are our investment team thoughts around causes for low interest rates:





Slow Economic Growth

Expectations for future US economic growth are subdued. Lower future growth and income expectations compel individuals to save more now, which results in lower interest rates. Additionally, the outlook for global growth has moderated, the IMF recently reduced their target for global GDP growth to 3.2% from 3.01%.

Controlled Inflation

Investors expect US inflation to avg. 1.9% for the next 5 years, well below historical levels. Low inflation generally suppresses interest rates.

Central Bank Policies

Nearly all developed market central banks are currently deploying accommodative monetary policies. Central bank intervention targets short-term interest rates with the hope that reducing short-term borrowings (i.e. being "dovish") will promote better economic growth.

We believe in the stance that rates will be "lower for longer" and have positioned bond portfolios accordingly.

Many of our clients here at Catalyst are founders, innovators, and entrepreneurs in the S.F. Bay Area tech economy; and as such, stock-based (equity) compensation is a common area of focus as it relates to their wealth strategy. However, even though we are located at the heart of the technology startups that rely heavily on equity compensation, we have found that there is still a large degree of uncertainty amongst employees around how it all actually works. Though when you start to break it down to the basics, things may begin to make some more sense.

Equity-based compensation is a form of non-cash payment that has economic value tied directly to the value of a company's stock. There are many ways and reasons why a company would want to pay employees with stock. Though at its core, most companies compensate employees with equity to ensure they have "skin in the game" whereby their incentives are aligned with those of the company's shareholders. As shareholders themselves, employees are then incented to, and more likely to, make decisions that maximize the long-term value of the firm.

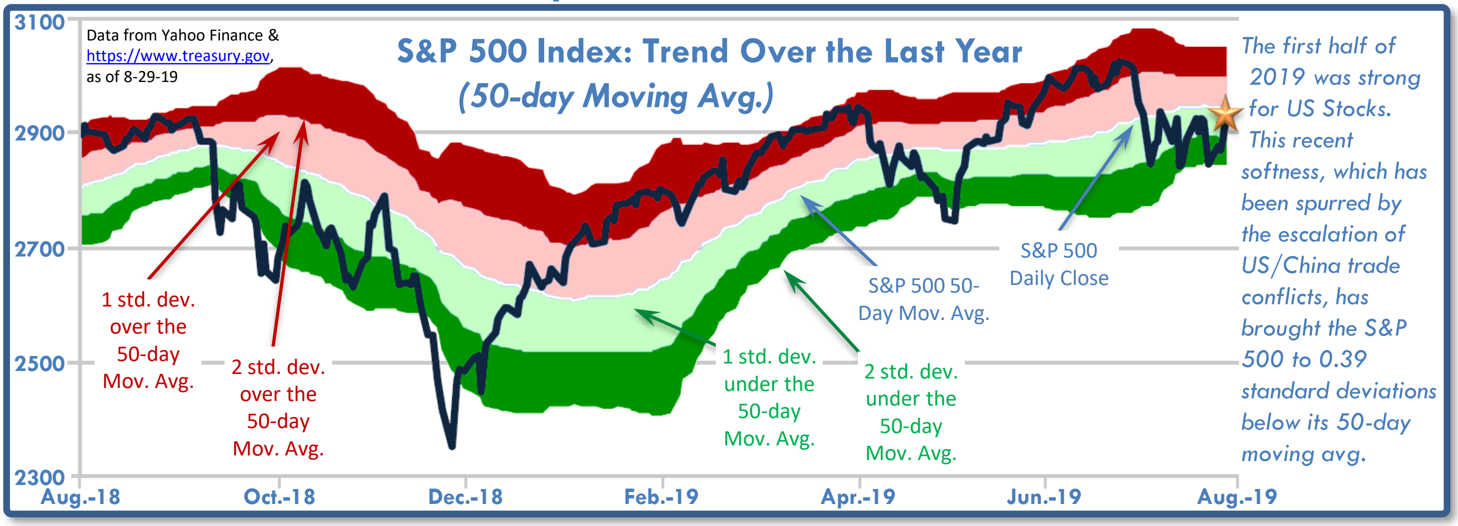
From a wealth strategy and planning perspective, it is imperative for individuals who receive equity compensation to have a clear understanding of what type(s) of compensation they are receiving. This is due the numerous types of equity compensation packages that are out there, and their different tax treatments. With that being the case, below we have broken down the common equity compensation forms, how they treated from a tax perspective*, and general strategy considerations one should make with respect to the type of award. Lastly, if you find yourself in the labyrinth of equity-compensation and need guidance, please do not hesitate to reach out to the Catalyst Team - we'd be happy to help!

Type	What is it?	Tax Implications	Strategy Considerations
Restricted Stock	Typically are common stock shares that are granted, but subject to restrictions. Restrictions may include vesting schedules, transfer restrictions, repurchase and/or forfeiture clauses. Usually very early stage co's - also known as "founders stock."	Pay ordinary income tax on full value of stock when vested. Capital gains rates apply on shares after vesting, with a new tax basis at that FMV price.	Since the stock is typically granted when the company is just founded, it potentially has little to no value for tax to be applied to. If so, consider an 83(b) election within 30 days of the grant date to recognize income taxes before vesting and get the capital gains clock ticking.
Incentive Stock Options (ISOs)	You have the right, but not the obligation to buy the stock at the strike price which is set on the date the option is granted. Typically, you will vest into the full option count over a 4-year period, with a 1-year cliff. Usually granted by Early-to-Mid stage private co's.	No ordinary income tax owed when options are granted or exercised, a benefit compared to NSOs. Though, depending on your specific situation, you may have to pay Alternative Minimum Tax (AMT) after exercising. Long-term capital gains rates apply if you sell 2 years past the grant date, and more than one year after exercise.	With ISOs, if allowable through the company, early exercising and making an 83(b) election within 30 days of exercising to recognize taxes prior to vesting may make sense. If you lose out on this ability, exercising as you vest to minimize AMT and to start the long-term capital gains clock can add significant value. Lastly, you can use a high ordinary income tax year to "shelter" from the AMT effects of exercising a significant portion of the vested ISO's.
Nonqualified Stock Options (NSOs)	You have the right, but not the obligation to buy the stock at the strike price which is set on the date the option is granted. Typically, you will vest into the full option count over a 4-year period, with a 1-year cliff. Usually granted by Mid-to-Late stage private co's, and publicly traded co's	Upon exercise, the delta between the strike price and the fair market value (FMV) of the stock on the exercise date is reported as ordinary income. Then capital gains rates apply with a new tax basis at that FMV price.	Considering that taxes are due upon exercise between the strike price and the FMV, exercising early with an 83(b) election when that spread is small and taxes are little could be optimal. This may or may not be appropriate given personal and company circumstances. If the strike price or FMV is too high, waiting to exercise until the stock trades in a liquid market is wise.
Restricted Stock Units (RSUs)	Compensation in the form of units of company stock that vests over time, typically 4-years with a 1-year cliff. Usually granted by public co's, but many late-stage "unicorn" private companies may as well.	Pay ordinary income tax on full value of stock when vested. Stock is typically sold by plan administrator to cover tax withholding. Capital gains rates apply after vesting. Beware of "Double-Trigger" vesting upon an Initial Public Offering (IPO).	In effect, the company is paying you in stock as opposed to cash. As such, any after-tax amount can be considered as one would a cash bonus. If you leave in company stock, it would be analogous to investing your after-tax cash bonus in company stock. This may or may not be appropriate given personal and company circumstances.

**This is being provided for informational purposes only and should not be construed as a recommendation to buy or sell any specific securities. Catalyst Private Wealth, nor any of its members, are tax accountants and do not provide tax advice. For tax advice, you should consult a tax professional.*

Matt Faubion, Partner, Wealth Strategist

US Stocks – A Historical Perspective…



EQUITY MARKET DATA: as of 8-29-2019

Index	Last Week	Last Month	YTD	Last Year	TTM P/E	Earnings Yield	Price/ Book	Dividend %
MSCI All World Index	0.90%	- 3.81%	12.23%	- 3.65%	15.78x	6.30%	2.95x	2.09%
S&P 500	0.94%	- 3.20%	16.74%	0.46%	16.16x	6.18%	3.20x	1.82%
Dow Jones Indl. Avg.	0.53%	- 3.22%	13.02%	0.94%	15.39x	6.49%	3.83x	2.09%
NASDAQ	0.32%	- 3.91%	20.17%	- 1.68%	21.87x	4.57%	4.28x	0.92%
Russell 2000 (sm.-caps)	- 0.10%	- 4.62%	10.99%	- 13.72%	21.11x	4.47%	1.87x	1.19%
EAFE Index (developed int'l)	0.67%	- 4.11%	7.19%	- 8.10%	13.12x	7.62%	1.50x	3.10%
Emerging Markets Index	0.76%	- 6.44%	2.17%	- 9.60%	11.72x	8.53%	1.51x	2.12%

Source: JP Morgan Asset Management, Yahoo Finance, Morningstar

US BOND MARKET DATA: as of 8-29-2019

Item	Last	Last Month	Yr. Ago
2-yr. Treas. Bond	1.53%	1.85%	2.67%
10-yr. Treas. Bond	1.50%	2.06%	2.96%
30-yr. Treas. Bond	1.97%	2.59%	3.09%

Source: www.treasury.gov

COMMODITY MARKET DATA: as of 8-29-2019

Item	Last	Last week	Last Month	YTD	TTM
Gold	$1,536	- 0.01%	6.94%	16.87%	23.52%
Crude Oil	$56.61	4.93%	- 1.05%	16.93%	- 12.89%
DB Comdty Tracker	$15.07	0.87%	- 2.77%	4.29%	- 12.38%

Source: JP Morgan Asset Management, Yahoo Finance, Morningstar

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CATALYST PRIVATE WEALTH

Catalyst Private Wealth was formed to navigate the wealth management complexities of high-net-worth individuals, innovators and leaders. Our clients often carry outsized risks, concentrated stock positions, and have a need for customized, comprehensive planning to navigate liquidity before, during, and after an event.